

~~TOP SECRET~~

DATE July 1, 1954

COPY NO.

OPERATIONS COORDINATING BOARD

Washington, D.C.

PROGRESS REPORT ON NSC 171/1

UNITED STATES OBJECTIVES AND COURSES OF ACTION

WITH RESPECT TO INDONESIA

REFERENCE: NSC Action No. 962

OCB FILE NO. 30

NSC review(s) completed.

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OPERATIONS COORDINATING BOARD
Washington 25, D. C.

September 28, 1954

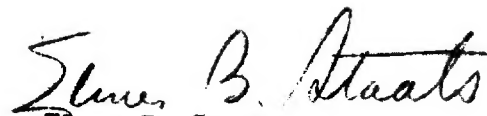
MEMORANDUM FOR THE OPERATIONS COORDINATING BOARD

SUBJECT: Progress Report on NSC 171/1 (Indonesia)

The attached Operations Coordinating Board Progress Report on NSC 171/1, "United States Objectives and Courses of Action with Respect to Indonesia", dated July 1, 1954, was used by the National Security Council as a basis for discussion in connection with Council consideration of the "Review of U.S. Policy in the Far East" (now NSC 5429/2) on August 12 and August 18, 1954, Action Nos. 1204 and 1206 respectively.

The National Security Council at the August 12 meeting (NSC Action No. 1204) reaffirmed the policy on Indonesia contained in NSC 171/1, subject to the changes made in paragraphs 19 and 21 (as set forth in paragraph 12 of NSC 5429/2).

The previous drafts of this report dated July 1, June 18, and June 9, 1954, and the memorandum dated June 22, 1954 transmitting corrected pages are obsolete and may be destroyed in accordance with the security regulations of your agency.


Elmer B. Staats
Executive Officer

Attachments:

1. Memo to the Executive Secretary, NSC, from the Executive Officer, OCB, dated July 12, 1954.
2. Progress Report on NSC 171/1 (Indonesia) dated July 1, 1954.

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OPERATIONS COORDINATING BOARD
Washington 25, D. C.

July 12, 1954

MEMORANDUM FOR: Mr. James S. Lay, Jr.
Executive Secretary
National Security Council

SUBJECT: Transmittal of Progress Report on NSC 171/1 (Indonesia).

REFERENCES: (1) NSC Action No. 962.
(2) Memorandum from the Executive Secretary, NSC, dated November 20, 1953.

On November 20, 1953 the President approved NSC 171/1, "United States Objectives and Courses of Action with Respect to Indonesia" and designated the Operations Coordinating Board as the coordinating agency.

Attached hereto is the progress report on implementation of NSC 171/1 covering the period through May 31, 1954. The report was approved by the Operations Coordinating Board on July 7, 1954.

With reference to Para. C. 2 of NSC 171/1, viz., increasing the training of Indonesian military officers in U. S. military schools, the OCB agreed that the Defense Department will endeavor to finance the trainees and that other agencies, directly or indirectly interested in this problem, will see if they can assist.

On July 7, 1954, subsequent to the date of the progress report, the Operations Coordinating Board also noted and discussed recent intelligence that the Polish Ship PULASKI has loaded in Djakarta 200 tons of an estimated 6000 ton rubber purchase with the apparent intention of proceeding to Communist China in violation of the UN embargo. The Department of State called in the Indonesian Ambassador on July 3 and our Ambassador in Djakarta is making representations with the Prime Minister and possibly the Vice-President in an attempt to persuade the Indonesian Government to prevent or divert the shipment. The Operations Coordinating Board noted that this matter is presently being handled through diplomatic channels.



Elmer B. Staats
Executive Officer

Attachment:
Progress Report on NSC 171/1
(Indonesia) dated July 1, 1954

July 1, 1954

PROGRESS REPORT ON NSC 171/1
UNITED STATES OBJECTIVES AND COURSES OF ACTION
WITH RESPECT TO INDONESIA

(Policy approved by the President November 20, 1953)

A. SUMMARY OF MAJOR ACTIONS

Limited progress has been made in implementing the courses of action set forth in NSC 171/1, as follows (paragraph references are to Annex A):

(a) Agreement to purchase tin under the third year of the RFC-Indonesian contract and announcement of U.S. policy withholding from world markets tin in excess of stockpile objectives (para. 20 b).

(b) Agreement on an FOA project for training and equipping the Indonesian Police (para. 26).

(c) At the Indonesian Government's request, supplying ample anti-Communist legislation (para. 15).

(d) Opening negotiations on an Information Media Guarantee Program (para. 27).

(e) Opening negotiations on a Treaty of Commerce and Navigation (para. 23).

(f) Preliminary discussions on, and study of the feasibility of furnishing U.S. officers under individual contract as instructors in the Indonesian Army (para. 26).

(g) Preliminary discussion of a state visit for President Sukarno in 1955 (paras. 12 and 18).

(h) Improved conditions with respect to the U.S. technical assistance program (Indonesian financial deterioration impedes progress of the program). (para. 22).

(i) Increased training for Indonesian Army officers in U.S. military service schools (para. 26).

(j) Carrying out and strengthening informational activities (para. 27).

Only limited action has been possible with respect to rubber (para. 20 a.)

No solution favorable to the U.S. of the Dutch-Indonesian dispute over New Guinea has been found. An attempt has been made to discourage Indonesian action which would bring the New Guinea issue into the UN (para. 25).

B. POLICY CONSIDERATIONS

Despite limited progress in implementing U.S. courses of action, the general situation in Indonesia has continued to deteriorate and U.S. capacity to influence Indonesian leaders in the attainment of its objectives has continued to be limited during the period covered by this report. Apart from apparently unavoidable political difficulties, U.S. failure thus far to find a workable formula and sound basis to help increase Indonesia's earnings from rubber in implementation of paragraph 20(a) NSC 171/1 has been a prominent factor limiting progress.

In the light of the Special Estimate, "The Significance of the New Indonesian Government" (SE-51, September 15, 1953) which characterized the present Indonesian Government as "more leftist than any preceding Government," the U.S. has perhaps had more success in carrying out the courses of action than might have been expected. This is the first Government which has issued an official statement on foreign investment, though the statement was phrased in generalities which have yet to be implemented. The American oil companies have been able to work out satisfactory ad hoc arrangements on taxes and the remittance of profits. Labor strife, the Communists' most potent weapon in Indonesia, has been less widespread under this Government than under the previous Government though the Communists have continued and may have increased their hold on organized labor. The American Ambassador in Djakarta has been able to establish rapport with key people in this Government.

The most alarming aspect of the deterioration is Indonesia's internal and external financial position. At the end of May, Embassy Djakarta reported that Indonesia's available international reserves were already below the critical level and that the Government was making frantic efforts to avoid further losses. If this deterioration continues unchecked, non-Communist Indonesian leadership will be further weakened and perhaps unable to remain dominant in Indonesian Government.*

* The slight difference between this analysis and that of the current Intelligence Estimate results from the developing situation since the NIE was written.

The policies and courses of action contained in NSC 171/1 are in general considered to be adequate, timely and appropriate to the current situation with the exception of paragraphs 19 and 21. Because of the deteriorating financial position and for purposes of clarity, it is recommended that the NSC reconsider paragraphs 19 and 21 for the reasons given in Annex B attached.

C. EMERGING PROBLEMS AND FUTURE ACTIONS

1. Indonesia is faced with either enforcing a further and drastic reduction in imports or permitting its foreign exchange balance to reach a dangerously adverse level. To take the first course invites further inflation and labor unrest; to accept the second courts financial disaster.

As the financial situation deteriorates, pressure to ship rubber to Communist China mounts. Shipments of Indonesian rubber in violation of the UN Embargo would call for consideration of invoking the Battle Act, threatening the termination of the U.S. technical assistance programs, the cancellation of further disbursements under the Export-Import Bank line of credit and the granting of export licenses to Indonesia. Such a development would seriously threaten U.S.-Indonesian relations and benefit the Communists.

Study is being made of whether the U.S. should attempt to give Indonesia a financial "shot-in-the-arm", while seeking closer U.S.-Indonesian cooperation in the long-range improvement of the latter's economy and of whether (a) economic aid will have a favorable effect on U.S.-Indonesian relations, and (b) failure to supply effective economic aid would result in a situation imperiling the U.S. position in Indonesia. Recommendations based on this study will be made to the NSC at an early date.

2. Pending a more effective arrangement, the training of Indonesian military officers in U.S. military schools appears to be the best available means of favorably influencing and strengthening the Indonesian armed forces. Unless Indonesia's foreign exchange position improves, the sending of these officers to the U.S. after this year may be precluded. This problem is under study with a view to finding a way to maintain and, if possible, increase the training of Indonesian military officers in U.S. military schools (para. 26, Annex A).

3. Continued failure to agree on reparations inhibits the increase of Japanese-Indonesian trade and hinders economic improvement in both countries. If requested by Indonesia, the U.S. is prepared to exert its good offices in this regard.

4. An additional problem in U.S. relations with Indonesia has been created by the Indochina crisis and by the necessity for political

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and military consultations with the Southeast Asian and European powers most concerned. Events in Indochina and U.S. action with respect thereto will profoundly affect the U.S. position in Indonesia. Effective U.S. action in opposing the surrender of any part of Indochina to Communism will strengthen and favorably influence anti-Communist and non-Communist elements. Converse action will weaken these elements, fill them with uncertainty and perhaps lead many of them to try to accommodate Communism. In contrast to Indochina, action countering Communism in Indonesia can be taken in non-military fields, most feasibly in the economic field.

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DETAILED DEVELOPMENTS OF MAJOR ACTIONS

Para. 10. "In carrying out the following courses of action, avoid the appearance of interfering in Indonesian internal affairs."

Para. 11. "Seek the elimination of Communist influence from the Indonesian Government."

Para. 13. "Constantly distinguish between the Communists, anti-Communists and the non-Communists in order to isolate, discredit and weaken the Communists, strengthen the anti-Communists, favorably influence and avoid alienating the non-Communists."

Para. 14. "Develop friendly relations with all anti-Communist and non-Communist groups and leaders in order to preserve U.S. ability to work with whatever elements, other than the Communists, may come into power."

These principles have continued to guide the activities of all the departments and agencies of the U.S. Government in the day-to-day conduct of relations with Indonesia and in actions taken pursuant to NSC 171/1.

Para. 12. "Use U.S. influence to encourage the holding of general elections in Indonesia at the earliest possible date."

In authorizing the American Ambassador in Djakarta to discuss with President Sukarno the latter's interest in a visit to the U.S. (see Para. 18 below) and the latter's views on the relationship such a visit would have to Indonesian elections, the Department of State hopes to influence President Sukarno to expedite the implementation of elections and favorably affect their outcome.

Information on election procedures is being included in USIA pamphlets produced and distributed in Indonesia. The recipient of an IES leader grant who studied election procedures in the U.S. has been made the chairman of an important election committee.

Registration for elections is being carried out.

Para. 15. "Exert influence wherever possible to bring about a common recognition by key individuals of the gravity of the Communist menace."

The American Ambassador in Djakarta has provided the Indonesian Foreign Minister, at the latter's request, with examples of anti-Communist legislation in the U.S. and other countries, and the Embassy staff are exerting their influence with key members of the Indonesian Government to induce in them a realization of the danger of Communism.

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Annex A

The visit of Vice President Nixon to Indonesia was effective, particularly with President Sukarno.

The visit to Indonesia by a Special Study Mission of the House Committee on Foreign Affairs and a discussion between Congressman Judd of that group and President Sukarno was also effective with respect to increasing the latter's knowledge of Communism.

Para. 16. "Utilize the forces of nationalism and of Islam in opposing Communism, and avoid antagonizing the force of anti-colonialism."

In discussing during April and May 1954 the "united action" concept with the Southeast Asian Ambassadors, including the Indonesian, the Department of State avoided simultaneous consultation with the Netherlands and did not invite Netherlands participation in any proposed Southeast Asian Pact. As a result, the Indonesian Government informed the U.S. officially that while unable to participate in "united action" before elections, it would view U.S. efforts in this field with "benevolent neutrality". Representatives of the Indonesian Government have assured the U.S. informally that they understand the necessity of action to stop Communism in Indochina but feel Indonesia cannot join any grouping now. Publicly, the Indonesian Government has followed the line adopted at the Colombo Conference of Asian Prime Ministers, namely, favoring a negotiated peace in Indochina, supervision of the cease fire by the Asian powers which met at Colombo and non-intervention by European, especially "colonial", powers in the area.

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Para. 18. "Place special emphasis on the use of the personal influence of American officials and private citizens on Indonesian leaders, especially President Sukarno."

The Department of State has authorized the American Ambassador in Djakarta to discuss with President Sukarno on a personal, confidential and no-commitment basis, the latter's interest in a visit to the U.S. and to elicit his views on Indonesia's position in the present international situation. (See also Para. 15 above).

Para. 19. "Show the Ali Cabinet no special favors which would tend to strengthen its tenure of office; but, on the other hand, attempt to avoid those actions which might alienate not only the Ali Cabinet but Indonesia as a whole."

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Annex A

Reconsideration of this paragraph is recommended under "C. Policy Considerations" above and discussed in Annex B.

Para. 20-24 inclusive. At the request of the OCB, the Department of State, in cooperation with the Foreign Operations Administration, prepared a paper recommending ways of implementing action in four areas of economic activity, namely, (a) rubber; (b) U.S. technical and economic assistance; (c) foreign investment; and (d) trade with Japan, which serves as a useful guide for action and for further study of the implementation of these paragraphs.

Para. 20 a. "Explore urgently the practicable means of assisting Indonesia in regard to its important economic problems, with particular attention to the net advantage of helping Indonesia find markets for rubber and tin, and explore the possibility of assisting the Indonesian Government in improving the quality of the rubber produced by small holders."

On April 12, the Department of State recommended for NSC Planning Board consideration that the U.S. raise the price of U.S. Government produced synthetic rubber by two cents per pound and offer assistance in long-range programs to improve natural rubber production and distribution. The Department of State withdrew its recommendation in the face of what seemed valid objections by other departments and agencies of the Government. On April 30, the NSC directed that the U.S. should "indicate its willingness sympathetically to consider, in cooperation with other countries, the possibility of assisting natural rubber producing countries to improve the efficiency of the natural rubber industry ..." and directed that other possible courses of action should be further explored within this Government (see NSC 5417/1). An Inter-departmental Committee is studying alternative suggestions on possible U.S. action to reduce distress in rubber in Southeast Asia.

Announcement by the U.S. representatives in Ceylon in May 1954 that the U.S. would not raise the price of synthetic and that the U.S. would not support a Rubber Buffer Stock Agreement elicited an unfavorable reaction from the Indonesian representatives.

Pressures within Indonesia for the shipment of rubber to Communist China have increased. On the other hand, Indonesia joined in the Rubber Study Group's estimate of a smaller (approximately 26,000 ton) surplus of natural rubber in the coming year and the Indonesian press did not attack U.S. rubber policy following the May meeting of the Rubber Study Group with anything like the vehemence which followed the meeting in October 1953.

FOA has requested its mission in Djakarta for additional information on the small holder rubber problem in Indonesia with a view to

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exploring the possibilities of developing projects to assist the small holders.

Para. 20b. "Recognize the obligation of the U.S. Government, under existing contracts for the purchase of tin, by making a reasonable offer to Indonesia with the intent of reaching agreement on a mutually satisfactory price for deliveries in the third year of these contracts."

On March 8, 1954, the U.S. announced it would not sign the International Tin Agreement but would isolate U.S. Government tin in excess of stockpile requirements so as not to adversely affect the world tin market, and on March 12, the U.S. signed an agreement to purchase 18-20,000 tons of tin and tin concentrates under the third year of the RFC-Indonesian Tin Contracts (implementation of NSC Action No. 1020).

Para. 21. "In the event that Communist influence is eliminated from the government of Indonesia, be prepared to take rapid appropriate action that would tend to strengthen the position of such an Indonesian government, particularly with respect to helping Indonesia find markets for tin and rubber."

Consideration of the amendment of this paragraph is recommended under "C. Policy Considerations" above and discussed in Annex B. Possible future action under this paragraph, as amended, is under study by the Department of State and FOA.

Para. 22. "In cooperation with the Indonesian Government, continue U.S. economic and technical assistance, both loan and grant, as appropriate, with special emphasis on the diversification of production to decrease excessive dependence on rubber."

There has been better understanding of U.S. objectives in its technical cooperation program in Indonesia and a greater degree of acceptability of aid, particularly of assistance in training Indonesians in technical fields. An Indonesian Planning Board set up under the present government has improved the coordination of foreign economic and technical assistance with Indonesian plans for economic development.

The following factors have impeded the progress of the FOA program in Indonesia both prior to and during the period covered by this report: (a) suspension of program discussions from February 23, 1952 to January 12, 1953; (b) fall of the Wilopo Cabinet during June 1953 and the subsequent reorganization of the Indonesian Government's foreign aid coordination mechanism by the Government taking office in August 1953; (c) FOA recruitment difficulties and resultant staff shortages; (d) internal administrative difficulties in Indonesia; (e) Indonesian budgetary

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difficulties and resulting Indonesian inability to render local currency support to the aid projects and failure to implement a counterpart program. Because of the slow program progress during FY 1954, the 1954 program was not submitted until May and June 1954 and is only now being processed by FOA. Firm requests now received or anticipated will exceed available funds by \$1 million or more, permitting a deferment of less promising items until FY 1955.

Preliminary discussions have been held with the Indonesians, both in Djakarta and Washington, on the necessity of early planning of the FY 1955 program. It is anticipated that a complete review of the FOA program with Indonesian officials would be desirable as soon as the newly designated Mission Director arrives in Djakarta, and it is believed that the Indonesians concur in this desire.

Negotiations for contracts with the University of California (medical affiliation with the University of Indonesia) and Tuskegee Institute (technical vocational education) have been carried to satisfactory completion. Preliminary negotiations with J. G. White (advisory engineering) will start early in June. The Indonesian Planning Board has requested extension of the J. G. White contract until December 31, 1955.

The extensive program of training in the United States has been effective. Fuller discussion of this segment of the program appears below under Para. 27.

Para. 23. "In cooperation with the Indonesian Government, assist in creating an adequate climate for foreign investment in Indonesia."

The Indonesian Foreign Minister on April 8 expressed a desire to proceed with preliminary negotiations on a Treaty of Commerce and Navigation. The Secretary of State has approved entering into preliminary negotiations and the Department of State is in communication with the Embassy concerning the preparation of a draft agreement.

Para. 24. "Encourage, to the extent feasible, increased trade between Indonesia and Japan."

Specific action under this paragraph has not been feasible thus far because of failure to solve the Japanese reparations problem and the question of Indonesia's debts to Japan.

Para. 25. "While for the present maintaining neutrality in the New Guinea dispute in our relations with other governments, explore within the U.S. Government solutions to this problem compatible with over-all U.S. objectives for possible discussion with other interested governments."

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The Department of State has responded to an informal Indonesian request for U.S. support or abstention in the UN on an Indonesian complaint to the General Assembly about Dutch refusal to discuss the political status of western New Guinea by authorizing the American Ambassador in Djakarta to attempt to discourage such action and to suggest instead that the Indonesians find an "area of agreement" for continued bilateral discussions with the Netherlands. There is evidence that the U.S. has convinced both the Netherlands and Indonesia of U.S. neutrality on the issue.

Para. 26. "As requested by the Indonesian Government, and as appropriate, make available U.S. military training, military equipment and supplies for the maintenance of internal security. The United States should respond as sympathetically as possible, subject to conditions then prevailing, to any Indonesian request for a U.S. Military Mission."

The Department of Defense has continued to study the problem of military training assistance to Indonesia. Pursuant to Indonesian overtures, the Department of Defense is currently considering the possibility of providing U.S. officers to instruct the Indonesian armed forces on an individual contract basis. In view of Indonesian dollar shortages, the Department of Defense has considered the idea of providing free transportation to Indonesian officer-trainees to and from the United States via MATS but has determined that it cannot legally expend MDAP funds for this purpose in the absence of an MDAP agreement between the U.S. and Indonesia. The Department of Defense is wholly in favor of facilitating the training of Indonesian officers in U.S. military service schools. The OCB Working Group is continuing to study this problem in an effort to find funds for the transportation of Indonesian officers to U.S. military service schools.

The U.S. Army allocated 145 spaces at U.S. service schools for training Indonesian officers during FY 1954 of which 38 have been filled. Indonesia has requested 137 spaces for FY 1955.

The U.S. Navy is training two Indonesian Naval Officers and three more are scheduled for training.

Approval has been given to an FOA project for training in police administration and the chief technician departed for Indonesia on May 30. FOA has reserved \$1 million (beyond the regular program) for necessary supplies and materials to implement the first stages of this project.

Para. 27. "Strengthen the U.S. information program, and the exchange of persons, including potential leaders in labor, industry and other fields."

USIA objectives in Indonesia have been revised in accordance with NSC directives. These objectives are: (a) to explain U.S. foreign policy and (b) to expose aggressive Communism as the "new imperialism." Development of new programs will concentrate on these themes.

All USIA services in Indonesia are provided on a request basis or on a basis which will not be regarded as interference in Indonesian internal affairs. USIA attempts to stimulate requests but does not supply books, pamphlets, film programs or other services to those who do not request them.

An increase of \$234,720 in the requested budget for FY 1955 over that in FY 1954 has been scheduled. The plans call for strengthening press and other services and for increased support for book translations. Two new American positions are being provided for this purpose. The build-up will proceed slowly, however, to avoid arousing antagonism in Indonesia.

USIA is conducting a survey of target groups in an effort to focus more effectively on the most important targets, which are: labor, youth, school teachers and students, government leaders, women's organizations, Islamic organizations and the Chinese community.

The daily press bulletin as a source of material for the local press has been discontinued and USIA has had more success in placing feature articles on an exclusive and sometimes unattributed basis in local newspapers and magazines through personal contact.

The American Miscellany, a bi-monthly magazine produced in Djakarta in English and Indonesian and attributed to USIA, continues to be the largest circulating magazine in Indonesia with 40,000 copies per issue, and is one of USIA's strongest and most effective activities. Continuous review of the mailing list is made in order to get the available copies to the most useful recipients.

Small, tactical pamphlets are produced locally and mailed to the approximately 50,000 persons who write to USIA each month for information. Pamphlets on subjects of particular importance are mailed to selected clients.

Circulation of books at the three USIA libraries (Djakarta, Medan and Surabaya) dropped in 1953, probably because the supply of new books was greatly reduced. The supply is now being restored. The libraries have steadily increased the number of new members, particularly among student groups. The opening of branch reading

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rooms in several other Indonesian cities is delayed pending approval from provincial and local Indonesian government offices.

A total of 43 grants to teachers, students, leaders and specialists was made in FY 1953, 38 grants were made in FY 1954 and 34 grants are proposed for FY 1955. The reduction in numbers has been caused by budget cuts. A supplemental budget request for the Far East has been presented to Congress which would allow for much-needed expansion of the Indonesian educational exchange program. The outstanding accomplishment of the educational exchange program in Indonesia was the "Home Ministry Project," under which 24 officials from the Ministry of Internal Affairs were brought to the U.S. to study public administration under the 1953 program. The Ministry desires to continue and expand this program.

At the Indonesian Government's request, an Information Media Guarantee Agreement is under negotiation. If concluded, it would stimulate the import of American books through Indonesian commercial channels.

FOA training grants are made primarily to increase technical knowledge but each grant also serves the purpose of the educational exchange program. The FY 1954 program calls for 275 trainees to come to the U.S. for study in the fields of agriculture, fisheries, health, education, industry, transportation, communications, housing, labor and public administration (including police training). There is some doubt that all these trainees can be processed before the June 30 deadline, however. The FY 1955 program tentatively provides for 216 trainees.

Para. 28. "Expand intelligence collection capabilities in order to provide adequate coverage of significant developments in Indonesia."

Action has been taken to the extent practicable. The U.S. Air Force has increased its effort in this regard. U.S. Army G-2 has increased its staff and emphasis. The U.S. Embassy in Djakarta has centralized its intelligence gathering and reporting staff in one building for better supervision and coordination, correlated the reporting from all U.S. Consular offices in Indonesia and increased its political reporting staff to the extent permitted by budget limitations. The Department of State has not been able to increase the number of consular offices in Indonesia and the large areas of Indonesian Borneo and eastern Indonesia are not adequately covered from the standpoint of political intelligence.

Additional activities will be reported directly to the NSC.

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Annex A

Para. 29. "In the event of a seizure, or attempted seizure, of power by internal Communist action in Indonesia: a. Seek maximum international response to a request by the legal government for friendly nations to come to its assistance against the insurgents. b. Consistent with world-wide U.S. commitments, take appropriate action, in collaboration with other friendly nations, to prevent permanent communist control of the area."

The contingency calling for action under this paragraph has not developed.

Para. 30. "In the event of Chinese Communist aggression against Indonesia, in addition to appropriate military action against Communist China, as contemplated in our over-all Southeast Asia policy, take appropriate military action to assist in the defense of Indonesia as part of a UN collective action or in conjunction with other friendly governments."

In compliance with a Joint Chiefs of Staff directive, CINCPAC is preparing current operational plans including plans for the defense of Indonesia.

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1. Paragraph 19, NSC 171/1 states "Show the Ali Cabinet no special favors which would tend to strengthen its tenure of office; but, on the other hand, attempt to avoid those actions which might alienate not only the Ali Cabinet but Indonesia as a whole."

Paragraph 19 does not include consideration of the fact that one of the most effective ways of driving a wedge between the nationalists in and out of the Ali Cabinet and the Indonesian Communist Party is to involve the nationalists in cooperative ventures with the U. S. Nor does paragraph 19 reflect the fact that President Sukarno, the single most influential non-Communist leader in Indonesia, supports the present Government and has indicated that he would dissolve Parliament if necessary to prevent its fall. Though himself a devout Moslem who commands the respect of the Moslem community, he opposes the theocratic state sought by the Moslem parties. It appears, therefore, that to attempt to strengthen Indonesia through any Government (at least prior to elections which are by no means certain to occur in 1955), the U. S. must work with this Government. There are other reasons for doing so. One accepting aid from the U. S. in Indonesia is widely regarded as one who is committed to the side of the U. S. To ignore or rebuff the nationalists drives them further toward the Communists. The Ali Government is weak and lacking in effectiveness. The Prime Minister, at least in public utterances, gives evidence of overly trusting the Communists. The Ministers of Defense, Labor and perhaps others in the Cabinet, invite suspicion by some of their actions favoring the Communists. There is no assurance, however, that if this Government fell prior to general elections, it would be succeeded by a more effective and more pro-U.S. Government nor that the deterioration which has been accelerated by previous Cabinet crises would not be again accelerated by another Cabinet crisis, perhaps to an extent dangerous to the continued dominance of non-Communist elements in government in Indonesia.* The U. S. has achieved limited progress by working with this Government and, by so doing, has to some extent favorably influenced at least some of its members. The elimination of paragraph 19 would facilitate action implementing other action under NSC 171/1 and should, therefore, be considered by the NSC.

2. Paragraph 21, NSC 171/1 reads as follows: "In the event that Communist influence is eliminated from the Government of Indonesia, be prepared to take rapid appropriate action that would tend

* The slight difference between this analysis and that of the current Intelligence Estimate may be attributed to the developing situation since the NIE was written.

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Annex B

to strengthen the position of such an Indonesian Government, particularly with respect to helping Indonesia find markets for tin and rubber."

Paragraph 21 recognizes the necessity of taking rapid appropriate action that would tend to strengthen the position of an Indonesian Government when Communist influence has been eliminated. Paragraph 21 fails to recognize the remoteness of this goal without effecting definite improvement of the Indonesian economic and financial position. To the extent the U. S. can aid in improving this position, it would hearten non-Communist elements both in and out of the Government and encourage their further cooperation with the U. S. At present the U. S. is at some disadvantage in trying to influence Indonesia because of the small amount of U. S. assistance being received by Indonesia in contrast to Indonesia's pressing financial distress and basic economic ills. Pressure to ship rubber to Communist China, for example, in an attempt to expand and strengthen the market for Indonesian rubber can now be only weakly countered by the U. S. The FOA program amounts to but \$4 million per year and is almost one year behind in implementation.

Consideration should be given by the NSC to amending paragraph 21 by eliminating the qualifying clause "in the event that Communist influence is eliminated from the Government of Indonesia" and by taking into account the factors set forth in the preceding paragraph.

3. Full implementation of NSC 171/1 amended as recommended above, would strengthen anti-Communist and favorably influence non-Communist elements and help make government in Indonesia more effective.

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